

Transcript of Questions and Answers for Q1 FY2026 Financial Results Briefing

The transcript of the questions and answers at the financial results briefing for Q1 FY2026 (for institutional investors, analysts, and the media) held on May 13, 2026 is as follows.

Speakers:

Yuichi Kouno Representative Director, Group President and Chief Executive Officer

Q&A 1: Cost planning in initial guidance and expense trends for Q1 and Q2

Questioner: When the initial guidance was announced, you explained that investments in core systems and upfront investments in the Direct Business Segment would weigh on full-year profit growth.

Looking at the current upward revision, are these expenses lower than your initial expectations, or have they been deferred? Please share your thoughts on the timing and scale of these expenses. Additionally, I would like to confirm the status of expense utilization in Q1 and Q2.

Kouno: First, Q1 expenses generally stayed within the planned range. Rather than cost control, the primary characteristic of Q1 was revenue growth that exceeded expectations. We formulated the plan for this Q1 by accounting for the loss of transactions with a certain large client that had continued until Q1 of the previous year; however, actual results showed robust growth exceeding those projections, which we identified as the main factor for the gap relative to the initial forecast.

Regarding our approach from Q2 onward, we controlled costs last year mainly by curbing mid-career hiring while monitoring business performance. On the other hand, given the strong revenue growth at present, we are proceeding with human capital investments, including new graduate hiring in April and mid-career hiring, as well as investments in solutions involving AI, according to our initial plan.

Questioner: As explained at the beginning of the period, should we understand that expenses will gradually increase from Q2 onward?

Kouno: That is correct. Although changes may occur depending on business conditions during the period, we are currently planning to proceed according to the initial plan. We are aiming for further growth while building a solid supply system for human resources.

Q&A 2: Factors behind the progress of collaboration with the Dentsu Group in Q1

Questioner: Transactions from Dentsu collaboration grew significantly in Q1. Does this include any one-time factors? Can we expect the same momentum to continue from Q2 and Q3 onward, using the strong Q1 results as a starting point? Also, please explain the background behind the significant growth in this particular quarter.

Kouno: Regarding the status of Dentsu collaboration in Q1, the biggest factor for the growth was that Q1 is

essentially the peak season for the advertising industry, a period when budgets are heavily allocated.

Many of the projects handled by the Dentsu Group involve advertising with branding budgets. In this context, Connected TV (CTV) and other areas are currently showing very strong growth, and we are increasing integrated proposals in partnership with the Dentsu Group. Even excluding seasonal factors, we anticipate that the increase in digital advertising delivery on TV devices will continue. Therefore, we are expecting to maintain a very positive momentum moving forward.

Q&A 3: Impact of the Middle East situation and changes in client advertising budgets

Questioner: You mentioned earlier that you are taking a cautious view of the second half, partly due to the impact of the situation in the Middle East. With the start of the new fiscal year, client budgets have likely been finalized. In the past, we have relatively often seen a "wait-and-see" tendency, where clients do not spend heavily in April and May. In the current environment, are clients spending their branding budgets relatively steadily in April and May? It would be helpful if you could also confirm the recent demand trends.

Kouno: Compared to the January–March period, the April–June period is a time when advertising budgets are typically somewhat restrained across the entire market.

Regarding the reduction of advertising budgets due to the global situation, we have been monitoring the trends through our Q1 results and recent performance; however, at this point, we have not confirmed any specific industries or clients that are significantly cutting budgets due to the macroeconomic environment. Therefore, while uncertainties remain for Q3 and Q4, our current situation is that no major impact has been observed so far.

Q&A 4: Potential for productivity improvement through personnel efficiency and AI utilization

Questioner: I have a question regarding personnel efficiency and the utilization of AI. I believe current productivity has reached a good level, but is it possible to raise it even further? Do you believe there is still room for growth, or do you feel that we have reached a sufficiently high level? Please share your thoughts on the current productivity level.

Kouno: Over the past few years, the integration of AI has advanced, leading to significant changes in our business processes and creative production. To put it simply, we believe we have established a structure that supports business operations while curbing recruitment costs.

Recently, our operating margin has risen significantly compared to six months or a year ago, and productivity per employee has also improved. Additionally, looking at Q1 alone, the operating margin appears particularly strong due to the high topline; however, there are signs that we can expect performance exceeding the previous year throughout the entire year from Q2 onward.

While I will refrain from mentioning specific figures regarding future operating margins and productivity, we believe there is still ample room to further improve productivity and various cost ratios through continued AI utilization.

Q&A 5: Competitive landscape of the advertising industry and the value of advertising agencies amidst the advancement of AI

Questioner: This is a major theme I ask about regularly, but I would like to hear your thoughts on the advancement of AI and the resulting changes in the competitive landscape. It may be redundant to mention, but

I have the impression that advertising revenue is expanding remarkably among major overseas internet ad media. I believe the success of their AI strategies lies behind this.

It is expected that the presence of ad media with AI as a strength will continue to grow even stronger. Amidst these changes, please share your current thoughts on the changes in the competitive landscape and the value of advertising agencies within that environment.

Kouno: While various news reports are circulating, the methods of AI utilization and revenue models differ across platforms, particularly among global platformers. Regarding the impact on our advertising industry, concerns have been raised that media traffic might decrease significantly. However, looking at the situation as a whole—including search ads and display ads—we have not seen such signs at this point.

Therefore, regarding the decrease in ad impressions due to the emergence of generative AI, no significant impact has appeared currently. Although various solutions are expected to emerge in the future, some platforms are reportedly working on initiatives such as ad delivery within generative AI services.

Furthermore, we take pride in deploying digital advertising at the forefront in Japan. We are striving to build a structure that can firmly catch up with changes in generative AI and ad delivery algorithms to rapidly provide value to clients in the form of improved advertising effectiveness.

Questioner: As a follow-up, I often discuss with customers the possibility and risks of competition becoming more severe between media companies and advertising agencies, including your company. As the strength of media increases further, how do you think you should appeal to advertisers that it is better to use agencies like yours rather than dealing directly with media companies? Even an answer like "such changes will not occur" is fine, but how do you view the changes in this area?

Kouno: I believe you are referring to cases where clients deal directly with platformers. Currently, we have not observed any particular trend toward in-housing among large clients, such as what occurred in the previous fiscal year. However, among small and medium-sized enterprise (SMB) clients whose monthly ad budgets are somewhat limited, some companies are proceeding with in-housing.

Regarding the impact of such changes, in terms of the platform's revenue share from agencies versus the share from direct-deal clients, we feel that gradual changes may occur. On the other hand, transactions have begun where clients working on in-housing utilize solutions provided by agencies like ours.

We are capturing this as a new market. Even if it is not a traditional advertising transaction, we are aiming for this market by providing solutions that enhance advertising effectiveness. Rather than viewing everything pessimistically, we are striving to ensure that the entire advertising industry remains vibrant.

Q&A 6: Revenue drivers and the outlook for the Marketing Communication Segment

Questioner: Revenue in the Marketing Communication Segment increased by 14% in Q1. Could you tell us whether expansion of existing clients or acquisition of new clients contributed more, and if there were any specific trends by industry?

Also, given this level in Q1, it seems that the hurdles for Q2 onward will be lower, and double-digit revenue growth for the full year might be possible as the growth rate expands. In the revised plan, how conservatively are you estimating the second half? Please share any assumptions for the first and second halves.

Kouno: Regarding the growth of the Marketing Communication Segment in Q1, we saw expansion in both

existing clients and the acquisition of new clients. A characteristic point was that, while there was some impact from client attrition in the Telecommunications sector, we were able to acquire clients in various fields such as games and entertainment. As a result, the most notable point for this quarter was that the proportion of the Telecommunications sector in our total revenue remained relatively unchanged compared to the previous fiscal year. Additionally, other sectors such as HR, finance, and retail also showed revenue growth, which was a major feature of Q1.

I will refrain from discussing details regarding Q2 onward. However, we believe this momentum is the result of initiatives started last year beginning to bear fruit, and we see this as a very positive sign.

Regarding the outlook for the second half in our earnings forecast, as mentioned, we are taking a slightly conservative stance; specifically, we are estimating operating profit to be roughly at the same level as the previous fiscal year. If the growth from the first half continues and the global situation does not impact the second half, we will continue striving to achieve even stronger performance.

Q&A 7: Future hiring policy and headcount projections

Questioner: I have a question regarding expenses. You mentioned earlier that you plan to gradually resume mid-career hiring across the entire Group. While I understand this depends on business performance, could you share your future outlook on how much you intend to increase the headcount?

Kouno: Regarding our future hiring policy, as mentioned in the previous question, we are at a level where we can still improve productivity and have extra capacity. We will make decisions while monitoring business performance; however, our attrition rate is generally between 8% and 12%.

Currently, with 1,900 employees, this results in a natural decrease of slightly less than 200 people annually. Our broad policy is to decide how much of this to cover through mid-career hiring, taking into account this year's new graduate intake, while monitoring our business performance. As we vary the specific number of hires based on the current organizational status and business conditions, I would like to refrain from giving a definitive number here.

Questioner: I understand that the total headcount, excluding new graduates, will not change significantly.

Q&A 8: Advertising market environment and digital shift trends

Questioner: I would like to ask about the overall industry environment. Septeni's performance was very strong this time, and looking at the financial results of other companies, I have the impression that it was a strong first quarter for others as well.

On the other hand, I believe the impact of the loss of large clients since last April has not yet fully cycled through, but you also mentioned OTT advertising earlier. There is a view that the entire industry is performing well across the board, similar to the digital shift seen during the COVID-19 pandemic. Have you noticed any changes in trends? I would appreciate your thoughts on this.

Kouno: As a premise, data confirms that the digital shift in the Japanese advertising market is continuing to progress. The growth rate of the digital advertising market is trending between 106% and 110%, showing stronger growth than any other media. We are expecting this trend to continue for the next one to two years.

While the temporary "digital ad bubble" during the COVID-19 pandemic has settled down, market growth is continuing. We are beginning to see signs that this could accelerate further as the utilization of TV devices via

CTV progresses. We believe that players who accurately capture these trends will continue to catch up with the market growth.

Q&A 9: Factors behind the gap with conservative initial guidance and the balance in large client strategy

Questioner: When the plan was announced during the full-year earnings call three months ago, some in the market were disappointed by your conservative projections, as they had assumed stronger growth. Since it was February, you likely saw the situation in January and February, but could not fully grasp the situation in March. Were there any changes in trends between January and March? I am curious if you were able to capture seasonal demand, such as budget spending in March.

However, based on what you just said, it feels like inquiries have been strong year-on-year from January to March, and even from April to June, regardless of seasonality. Could you tell us where your view changed compared to the previous plan?

Relatedly, I have a question about the fact that the number of collaboration clients with the Dentsu Group decreased by 17% (27 clients) year-on-year. This seems to be the first time this has happened, but the unit price per client has risen significantly. From these figures, it appears that large clients contributed substantially to the collaboration with the Dentsu Group. I would like to know if this was a coincidental result or an intentional move on your part, and the background behind it.

Also, the revenue to net sales ratio has declined slightly, particularly in the Marketing Communication Segment. Under the previous president, it was mentioned that "we went for the absolute amount rather than the take-rate." What was your policy this time? Please comment on whether this was intentional or a result of other factors.

Kouno: Regarding the changes since the initial forecast, we viewed the situation conservatively because the impact of a certain client from the previous fiscal year remained from January to March. As a result, although we anticipated a decrease particularly in the Telecommunications sector, we acquired more large-scale new clients than expected, in addition to growth from existing clients across many sectors.

In particular, several companies started transactions in January or February and expanded significantly in March. We believe this was one factor that created a positive gap relative to our initial forecast.

Regarding the collaboration with the Dentsu Group, as you mentioned, the number of clients decreased while the unit price per client rose, centered on large-scale projects. While this was partly influenced by fiscal year-end budget demand in March, we believe a major point is that the trend of utilizing digital-related budgets is increasing year by year.

In response to this, we established a structure to firmly capture demand through integrated proposals by collaborating with the Dentsu Group, including Dentsu Digital.

Regarding the revenue to net sales ratio, as you mentioned, we managed it with an awareness of the rate since the beginning of last year and strove to improve it throughout the year. However, the revenue to net sales ratio tends to decline with certain large clients. Therefore, in Q1, it decreased slightly by a few tenths of a percent compared to the previous year due to client and media allocations. We are continuing to work on improving the revenue to net sales ratio across the Group and aiming to return it to a recovery trend.

Questioner: I did not see the number of large clients this time, but deepening relationships with large clients makes it easier to improve productivity in the short term. However, being swayed by the budgets of large clients can lead to unintended negative turns. Ideally, the number of clients should increase sustainably while the topline also rises thanks to specific clients.

Do you feel the current balance between the number of clients and their budget scales is appropriate, or do you believe there is still room to lean toward large clients and have judged that to be the correct path?

Kouno: That is a difficult question to answer, but looking at the overall Dentsu Group collaboration, we handle transactions with clients who run TVCMs (Dentsu Inc.'s large clients) as well as those operating at the regional level. Therefore, our strategy is to build a structure that can cover both.

While it may appear that the number of clients has decreased temporarily, we have a strong intention to continue deepening collaboration regarding the budgets of mid-class clients of regional Dentsu offices as well as large clients. We intend to work on this by appropriately allocating our resources within the alliance with the Dentsu Group while maintaining this balance.

Questioner: May I understand that while the spending appetite of mid-class clients in regional areas was somewhat low, large clients, including those in the Tokyo metropolitan area, were very eager, and as a result, you were able to capture them?

Kouno: Even with regional clients, we handle both regular advertising budgets and temporary spot budgets, so we are proceeding with transactions while monitoring this balance. In other words, I want to emphasize that we are not solely focusing on large clients. However, since the digital shift of TV budgets for large clients is progressing across the entire market, we intend to respond to this firmly.

Q&A 10: Accounting framework for transactions with SMBs that have moved toward in-housing

Questioner: You mentioned earlier that you have started transactions involving solutions with SMBs that have moved toward in-housing. Is it correct to understand that these are recorded under the Data & Solutions Segment?

Kouno: Our support includes not only the provision of ad operation tools, which are classified under the Data & Solutions Segment, but also creative production support. Furthermore, in cases where the operational environment is not yet established, we start support from system development. For some companies, we also provide human resource support, such as temporary placement of personnel, including on-site staffing. These types of complex support involve different combinations for each client, and we are currently proceeding with such initiatives.

Questioner: In other words, this contributes to both the Data & Solutions Segment and the Marketing Communication Segment?

Kouno: That is correct. We are implementing similar initiatives in the Direct Business Segment as well. As a Group, we provide assets that can be utilized across all business segments by customizing them for each client.

Q&A 11: Market growth rates and future transaction volume plans

Questioner: I would like to ask about market growth. When we last spoke, you mentioned that your full-year market outlook was around 6%. Meanwhile, your company's plan was to grow by 6.6%, at least outperforming the market.

This time, you have announced a net sales increase of 9.6%. How do you view the market now? Has the market situation changed? As mentioned in a previous question, other competitors also saw strong performance in internet advertising from January to March. I would like to know if you are viewing the overall market for this fiscal year a bit more strongly.

Kouno: Regarding your question, while I cannot give a precise answer until we close the results for the fiscal year, basically, a trend of growth between 6% and 10%, averaging 8%, has continued for the past several years. We perceive that this trend will continue for the time being.

However, "competitors" vary. In particular, agencies dealing with large advertisers are likely to maintain this growth trend, as they can more easily catch up with the digital shift of budgets from mass media such as television. On the other hand, an increasing number of companies are starting in-house operations without using existing agencies. Therefore, the growth rates of agencies dealing with such companies may vary. We expect each company to move forward with various initiatives.

As for our company, we are working on both Dentsu collaboration and organic initiatives, centered on large clients, while also proceeding with organic measures and collaboration with regional Dentsu offices for SMB clients.

Questioner: Based on a simple calculation, the growth rate for the second half would be around 12% to 13%. Do you expect that momentum to continue into the next fiscal year?

Kouno: Are you referring to the market?

Questioner: I am referring to your company's forecast.

Kouno: As I mentioned earlier, unless there is an economic slowdown or other factors, we are aiming for this level of growth. While I touched upon the upward revision earlier, we do not yet have enough information to disclose regarding FY2027 or FY2028. However, while monitoring the trends in the second half, we intend to formulate a solid plan that can capture the figures you mentioned.

Q&A 12: Progress of in-housing among large-scale advertisers

Questioner: Regarding the in-housing you mentioned earlier, you stated that it is currently progressing mainly among SMB clients. How do you view the speed at which the trend toward in-housing might expand among large-scale advertisers in the future? Do you believe that in-housing will not progress among major clients? Please provide a follow-up on your thoughts regarding the current pace and future outlook of in-housing.

Kouno: While the topic of in-housing among large clients has existed for some time, there have been cases across the industry where clients challenged in-housing but eventually returned to using agencies. We believe that the intention to take on such challenges will continue to arise, as the environment is becoming easier to navigate due to the development of digital infrastructure and the widespread use of generative AI.

However, unlike the U.S. or global markets—where clients establish solid internal structures and only request creative production or media buying from agencies—we believe it is difficult for Japan to reach such a

situation. Except for the specific case last year, we have not observed many instances of large-scale clients moving toward in-housing. Therefore, our view is that no significant changes are likely to occur within the next few years in the short term.